

# Flag Resources (1985) Limited

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# **Flag Resources (1985) Limited**

**Fifty – First  
Annual Meeting and Report**

**2004**

**Head Office  
The Aquitaine Tower  
Suite 1210 – 540 Fifth Avenue S.W.  
Calgary, Alberta, Canada  
T2P 0M2  
Toll free in North America 1-888-513-7798  
Listed on the TSX Venture Exchange  
Trading Symbol FGR.A**

## **Flag Resources (1985) Limited Annual Report**

### **June 4, 2004**

Dear Shareholder,

It has been an eventful year for Flag.

The Cobalt Hill mineralized structure, Mackelcan Township, Wanapitei Anomaly, Sudbury, Ontario, has evolved into the largest mineralized structure discovered by Flag in its 24 years of exploration in the Wanapitei Anomaly. Because of its size, it has the potential for being a large mineral discovery. It is the largest mineralized structure that I have encountered in 42 years of exploration in northern Ontario and Quebec.

The mineralization at Cobalt Hill is nickel – rich sulfides, with copper and gold, predominate in small inclusions in pyrite – rich quartz veins in Lorraine quartz sediments. The unique pyrite - rich quartz veins have been found only on both sides of a large 400 foot wide north trending fault zone.

Flag has concluded that the fault zone appears to be the most likely place for finding the source of the metals at Cobalt Hill, suggested to be a mineralized mafic/ultramafic igneous intrusion.

Flag proposes to commence drilling its first drill hole into the 400 foot wide fault zone before the end of June.

Other exploration projects proposed for 2004 include:

#### **Laundry Lake**

A long overdue total magnetic field downhole survey on Flag's 4500 foot deep vertical drill hole at Laundry Lake, 2000 feet northeast of Wolf Lake, located at the site of the western magnetic peak of the Wanapitei Anomaly. W.A. Bill Morris, Consulting Geologist, McMaster University, Hamilton, Ontario, reported that zones of magnetically enriched sediments, in the drill hole, from 500 to 1000 feet, and from 1700 to 2500 feet, were not of sufficient magnitude to produce the Wanapitei Anomaly. To find the depth of the source body of these magnetically enriched zones he recommended the total magnetic field downhole survey. The ore deposits of the adjoining magnetic and gravity Sudbury Anomaly (aka Sudbury Basin) have been estimated to contain from 5% to 25% magnetite. (A.J. Naldrett, Geology and Ore Deposits of the Sudbury Structure, 1984).

#### **Wolf Lake, Mackelcan Township**

Proposed drilling of coinciding gold – copper geochemical and V.L.F. electromagnetic anomalies, on the east side of Wolf Lake, across the lake from the Wolf Lake gold – copper deposit.

### **Rathbun Lake**

A proposed follow – up drilling, with associated Golden Briar, to a 70 degree hole drilled into Rathbun Lake, which intersected pyrrhotite, in narrow fractures and locally in concentrations up to 2% over 3 feet, from 82 to 700 feet, and chalcopryrite, pyrrhotite and pyrite in quartz – carbonate veinlets, from 2018 to 2500 feet. The drill hole is located 140 feet northeast of the Rathbun Lake Occurrence, a rich mined out surface showing of copper, nickel, platinum, palladium, gold and silver massive sulfides. (A selected grab sample, by the Ontario Geological Survey, Report 213, 1984, assayed 10.2% copper, 0.149% nickel, 0.02oz gold, 2.22oz silver, 0.056oz platinum and 34.60z palladium per ton).

### **Exploratory Licence of Occupation**

Flag has applied for an extension to complete further exploration on its Exploratory Licence of Occupation, located in the northern perimeter of the Sudbury Basin.

### **Magatagamasi and Bolands Lake**

With joint venture partner, Golden Briar (on 18 mining claims in Rathbun Township) it is reviewing exploratory drilling at Matagamasi Lake, Rathbun Township, where drilling intersected 1111 feet of very sparsely disseminated nickel, copper and gold, from 419 to 1530 feet. Also in the 18 claim group, mineralization discovered at Bolands Lake is being reviewed, where drilling intersected two large zones of visible blebs of pyrrhotite and chalcopryrite.

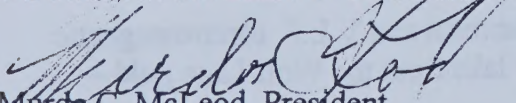
In 2003, I exercised my options in Flag stock, at cost, to help finance Flag's operating expenses, as set forth in Note 17 of the December 31, 2003, annual financial statements.

In 2003, Flag issued 2,000,000 shares of its stock to associated Golden Briar, at a deemed price of \$0.12 per share, for payment of indebtedness of \$240,000.00

Golden Briar shareholders are being asked to approve, at their general meeting on June 30<sup>th</sup>, 2004, a resolution, subject to regulatory approval, to issue 10,000,000 shares of Golden Briar stock, to Flag, at a deemed price of \$0.10 per share, for payment of indebtedness of \$1,119,575.00 as of December 31<sup>th</sup>, 2003.

Sam Stern, Washington, D.C. USA, has resigned from the board of directors for personal reasons. Claude Giroux, a retired mining executive, Thelford Mines, Quebec, Canada, has been appointed a Flag director, subject to shareholder approval.

On behalf of the Board of Directors



Murdo C. McLeod, President

# Flag Resources (1985) Limited

## Proxy Statement And Information Circular

### For The Annual Meeting of Shareholders

To be held on  
June 30, 2004

**Flag Resources (1985) Limited**  
**Proxy Statement and Information Circular**  
**For The Annual and Special General Meeting of Shareholders**  
**To be held on June 30, 2004**

This Proxy Statement and Information Circular is furnished in connection with the solicitation of Management of Flag Resources (1985) Limited (the "Corporation") of proxies to be used at the Annual Meeting of Shareholders (the "Meeting") of the Company to be held at **1210 540 5<sup>th</sup> Ave. SW**, the Aquataine Tower, Calgary, Alberta, Canada on **Wednesday, June 30<sup>th</sup>**, at the hour of 2:00pm MST for the purposes set forth in the accompanying Notice of the Annual Meeting of Shareholders.

**Solicitation of Proxies by Management**

The solicitation of proxies by management will be primarily by mail, supplemented by telephone, fax and personal contact by directors and officers of the Corporation. All costs in connection with the solicitation of proxies by the management for use at the Meeting will be borne by the Corporation.

**Voicing of Shares**

Those persons entitled to attend and vote at the Meeting or to be represented there at by proxy are those holders of common shares of record at the close of business on May 28, 2004, being the record date for the Meeting, provided that, to the extent that a shareholder transfers the ownership of any of his shares after the record date and the transferee of those shares establishes that he owns such share and demands no later than ten days before the Meeting that his name be included in the shareholders list, such transferee is entitled to vote on a ballot at the Meeting. Each common share carries the right to vote on a ballot at the Meeting. There are currently 25,476,455 common shares issued and outstanding. A quorum for the meeting is persons present not being less than two in number.

**Appointment and Revocation of Proxies**

The persons named in the enclosed form of proxy to represent the shareholders are directors or officers of the Corporation. A shareholder submitting a form of proxy has the right to appoint a person or persons, who need not be shareholders, to represent him at the meeting other than the person designated by Management as the proposed proxy holders in the form of proxy furnished by the Corporation. Such right may be exercised by crossing out the name of the shareholders nominee(s) in the blank space(s) provided for that purpose in the form of proxy, or by completing another proxy in proper form.

To be voted at the Meeting or any adjournment thereof, a proxy must be received Computershare Trust Company, 9<sup>th</sup> Floor Proxy Dept., 100 University Ave., Toronto, Ontario M5J 2Y1 prior to 2:30 pm MST, **June 29, 2004**.

In addition to any other manner permitted by law, a shareholder who has given a proxy may revoke it, as to any matter on which a vote has not already been cast pursuant to the authority conferred by it, by instrument in writing, executed by the shareholder or by his attorney in writing or, if the shareholder is a corporation, under its corporation seal or by an officer or attorney thereof duly authorized, and deposited at the registered office of the Corporation, at any time up to and including the last business day preceding the day of the Meeting or any adjournment thereof, or with the Chairman of the Meeting of the day of the Meeting or any adjournment thereof.

### **Voting Of Proxies**

The persons named in the enclosed form of proxy, will, if the form of proxy is duly completed and deposited on a timely basis, vote all common shares in respect of which they are appointed to act on any ballot that may be called for, and they will vote such common share in accordance with any specification made therein. In the absence of any such specification by a shareholder, the persons named in the enclosed form of proxy will vote the common shares in respect of which they are appointed to act in favor of the ordinary resolutions as forth herein.

The enclosed form of proxy, when duly completed and deposited, confers discretionary authority upon the persons named therein with respect to amendments made to the matters identified in the Notice of Annual Meeting for which the proxy is solicited and with respect to any other matters which may properly come before the Meeting.

Management does not know of any matters to come before the Meeting other than the matters referred to in the Notice. In respect of any amendments to the matters identified in the Notice of Annual Meeting, other persons named in the proxies solicited by management for use at the Meeting will vote on such matters at their discretion.

### **Special Resolutions and Ordinary Resolutions**

Special resolutions must be passed by a majority of not less than two thirds of the votes cast by the shareholders who vote in person or by proxy in respect of the resolution.

Ordinary resolutions must be passed by a majority of the votes cast by the shareholders who vote in person or by proxy in respect of the resolution.

Shareholders who do not vote upon a resolution in person, or by proxy, will therefore not be counted in the above determinations.

## **Information Concerning the Corporation Voting Shares and Principle Holders Thereof**

To the knowledge of the directors, and senior officers of the Corporation, no person or company beneficially owns, directly or indirectly, or exercise control or direction, as of October 11, 2002, shares carrying more than 10% of the voting rights attached to the Common Shares.

## **Interests of Insiders in Material Transactions**

There were no material interests, direct or indirect, of directors or senior officers of the Corporation, nominees for director, any shareholder who beneficially owns more than 10% of the shares of the Corporation, or any known associate or affiliate of these persons in any transaction since the commencement of the Corporation's last completed fiscal year and in any proposed transaction which has materially affected or would materially affect the Corporation or any of its subsidiaries other than as follows:

1. Golden Briar Mines Limited ("Golden Briar") held 2, 017,793 Common Shares (as of December 31, 2003) of the Corporation. Murdo C. McLeod, a director and President of the Corporation, is also a director and President of Golden Briar. Richard Dye, who is a director of the Corporation, is also a director of Golden Briar Mines
2. The Corporation has granted a 10% net profits interest to Murdo C. McLeod on certain claims in Rathbun Township. The granting of this net profits interest was approved by shareholders at a special meeting of the Corporation held January 28, 1985.
3. Sydney Mischczuk, director and chairman of the Corporation, is the President and owner of Cooksville Steele Limited. Total indebtedness of the Corporation to Cooksville Steele Limited, including interest, as of December 31, 2003, was \$7,094,000 (refer to note 6, financial statements). This indebtedness is unsecured and payable on demand; however Cooksville Steele has indicated that it will not demand payment in 2004.
4. Murdo C. McLeod has an Exploration consulting Agreement with the Corporation, whereby he is paid \$300.00 per day for exploration consulting services, including assessment filings, contract drilling, geophysical services, supervising exploration, employing consulting geologists, prospecting and negotiations of agreements.

The information as to shares beneficially owned, directly or indirectly, or over which control or direction is exercised, is based upon information furnished to the Corporation by the respective nominees.

### **Statement of Executive Compensation**

There is presently one (1) officer of the Corporation. During the last completed financial year the Corporation has one (1) executive officer that received cash compensation of \$19,804.00 in aggregate from the Corporation for services rendered during the last completed financial year.

### **Stock Options**

Stock Options have been granted to the following Directors of the Corporation:

Murdo C. McLeod: 900,000 @\$0.13 per share expiring the 06/01/06

Sydney Miszczuk: 50,000 @ \$0.15 per share, expiring the 14/11/06

Edwin Bauer: 25,000 @ \$0.15 per share, expiring the 14/11/06

### **Other**

The aggregate value of other compensation (including benefits) paid by the Corporation to executive officers of the Corporation did not exceed the lesser of \$10,000.00 times the number of executive officers and 10% of the cash compensation paid to executive officers during the last completed financial year.

### **Directors**

Directors of the Corporation are not paid for acting in their capacities as such; however, the directors are reimbursed for miscellaneous out-of-pocket expenses in carrying out their duties as directors.

The president, and a director of the Corporation, has a management contract with the Corporation, receiving \$500.00 weekly. In addition, he has a consulting contract with the Corporation, pursuant to which he receives \$300.00 per day, when engaged in supervision of active exploration.

### **Indebtedness of Directors and Senior Officers**

Management of the Corporation is not aware of any indebtedness outstanding by directors or senior officers of the Corporation to the Corporation or its subsidiaries at any time since the commencement of the last completed financial year of Corporation except as disclosed under "interest of Insiders in Material Transactions".

## **Interests of Certain Persons and Companies in Matters To Be Acted On**

Management of the Corporation is not aware of any material interest of any director or nominee for director, or senior officer or anyone who has held office as such since the beginning of the Corporation's last financial year or associate or affiliate or any of the foregoing in any matter to be acted on at the meeting other than as disclosed herein.

### **Election of Directors**

Unless otherwise directed, it is the intention of management to vote proxies in the accompanying form in favor of the election as directors of the five (5) nominees hereinafter set forth:

Sydney Mischczuk  
Murdo C. McLeod  
Richard Dye Sr.  
Claude Giroux

The names and municipalities of the persons nominated for election as directors, the number of voting securities of the Corporation beneficially owned, directly or indirectly, over which each exercises control or direction, the offices held by each in the Corporation, the period served as director and the principal occupation of each within the five years preceding are as follows:

Sydney Mischczuk: Mississauga, Ontario, Canada (1) (3) Chairman of the Corporation since 1980. Principal Occupation: President Cooksville Steele Limited. Shares beneficially owned directly or indirectly: 1,035,737

Murdo C. McLeod: (1) Calgary, Alberta, Canada. President and director of the Corporation since 1976. Principal Occupation: President of the Corporation and of Golden Briar Mines Limited. Shares owned directly or indirectly:

Richard Dye Sr.; Montpelier, Ohio, USA. Director since 1974. Principal Occupation: Manufacturer. Shares beneficially owned directly or indirectly: 800,000

Claude Giroux (1) Thelford Mines, Quebec. Director since 2004. Principal Occupation: Retired Mining Executive. Shares beneficially owned directly or indirectly: 300,000

### **Notes**

1. Member of the Audit committee
2. The Corporation does not have an executive committee
3. Includes common shares held through Cooksville Steele Limited, a private company which is owned by Mr. Mischczuk and family

## **Adoption of Share Option Plan**

At the Meeting, shareholders will be asked to approve an ordinary resolution approving a share option plan (the “New Plan”) which will authorize the board of Directors of the corporation to issue options to directors, officers and employees of the Corporation and its subsidiaries.

The Plan was approved by the Board of Directors of the Corporation on April 6, 1998, subject to receipt of regulatory and shareholder approval.

The Plan affords the flexibility to the Board of Directors of the Corporation to grant options as an additional incentive for directors, officers and employees of the Corporation and its subsidiaries to invest in shares and thereby increase their proprietary interest in the Corporation.

Pursuant to the Plan, options may be granted to purchase shares up to a number not exceeding the maximum number of shares permitted under the rules of any stock exchange or any other regulatory body having jurisdiction presently 10% of the shares outstanding with a maximum number of shares options to any one optionee not to exceed 5% of outstanding shares. The exercise price of such options cannot be less than the market price of the shares on the stock exchange on which such shares are then traded less the permissible discount permitted by the rules of any stock exchange or other regulatory body having jurisdiction.

The entire text of the Plan is attached as **Appendix A** and the foregoing is qualified in its entirety by reference to that text. The complete text of the resolution intended to be placed before the meeting for approval, with or without variation, is as follows:

### **BE IT RESOLVED AS AN ORDINARY RESOLUTION THAT:**

1. The Share option Plan of the Corporation will authorize the Board of Directors of the Corporation to issue options to directors, officers and employees of the Corporation and its subsidiaries, the entire text of which is attached as **Appendix A** to the Information Circular-Proxy Statement of the Corporation dated June 4, 2004 and is hereby approved; and
2. Any one director or officer of the Corporation is hereby authorized and directed to do all things and execute all instruments and documents as in his opinion may be necessary or desirable in order to give effect to this resolution.

## **Appendix “A”**

### **1. Purpose of the Plan**

The purpose of the Plan is to develop the interest of directors, officers and employees and full – time consultants of Flag Resources (1985) Limited (the “Corporation”) and its subsidiaries in the growth and development of the Corporation and its subsidiaries by providing them with the opportunity through share options to acquire an increased proprietary interest in the Corporation.

### **2. Administration**

The Plan shall be administered by the Board of Directors of the Corporation, or if appointed, by a special committee of directors appointed from time to time by the Board of Directors of the Corporation (is hereinafter referred to as the “Committee”) pursuant to rules of procedure fixed by the Board of Directors.

### **3. Granting of Options**

The Committee may from time to time designate directors, officers or full time employees of the Corporation or its subsidiaries to whom options to purchase common share of the Corporation may be granted and the number of common shares to be optioned to each, provided that the total number of common shares to be optioned shall not exceed the number provided in Clause four hereof, and exercisable for a maximum of five years from the date of grant.

### **4. Shares Subject to the Plan**

- a) Options may be granted to purchase authorized but unissued common shares of the Corporation not exceeding the maximum number of shares permitted under the rules of any stock exchange or other regulatory body having jurisdiction (presently 10% of the common shares outstanding with the maximum number of common share optioned to any one optionee not to exceed 5% of such outstanding common shares) subject to adjustment of such number pursuant to the provisions of Clause 9 hereof. Shares in respect of which options are not exercised shall be available for the granting of subsequent options.
- b) No more than 2% of the Corporation’s outstanding shares may be granted to any one consultant or an employee conducting Investor Relations or Activity in any twelve month period.

### **5. Vesting**

The Committee may, in its sole discretion, determine the time during which options shall vest and the method of vesting, or that no vesting shall exist.

### **6. Option Price**

The option price on shares subject to the Plan shall be fixed by the Committee when such option is granted, provided that such price shall not be less than the market price of the common shares on the stock exchange which such shares are then traded less the permissible discount permitted by the rules of any stock exchange or other regulatory body having jurisdiction.

### **7. Option Terms**

The period during which an option is exercisable shall, subject to the provisions of the Plan requiring acceleration or rights of exercise, be such period as may be determined from time to time by the /Committee but subject to the rules of any stock exchange or other regulatory body having jurisdiction (presently restricted to five

years). Each option shall, among other things, contain provisions to the effect that the option shall be personal to the optionee and shall not be assignable. In addition, each option shall provided that:

- a) upon the death of the optionee, the option shall terminate on the date determined by the Committee which shall not be more than twelve months from the date of death; and
- b) If the optionee shall no longer be a director or officer of or be in the full-time employ (or be a full-time consultant) of either the Corporation or a subsidiary of the Corporation the option shall terminate on the expiry of the period (the "Termination Date") not in excess of ninety days prescribed by the Committee at the time of grant, following the date that the optionee ceases to be a director or officer of, or an employee or full-time consultant of, either the Corporation or a subsidiary of the Corporation
- c) If the option is granted to an optionee who is engaged in Investor Related Activity shall expire within 30 days after the optionee ceases to be employed to provide Investor Related Activity.

Provided that the number of common shares that the optionee (or his heirs or successors) shall be provided to purchase until such date of termination, shall be the number of common shares which the optionee was entitled to purchase on the date of death or the date the optionee ceased to be an officer, director or full-time employee, as the case may be.

#### **8. Exercise of Option**

Subject to the provisions of the agreement governing any particular option, an option may be exercised from time to time by delivery to the Corporation at its head officer in Calgary, Alberta, or such other place as may be specified by the Corporation, of a written notice of exercise specifying the number of common shares with respect to which option is being exercised and accompanied by payment in full of the purchase price of the shares then being purchased.

#### **9. Alterations In Shares**

Appropriate adjustments in the number of common shares optioned and in the option price per share, as regards to options granted or to be granted, may be made or facilitated by the Committee in its discretion to give effect to adjustments in the number of common share resulting from subdivisions, consolidations or reclassifications of the common shares, the payment of stock dividends by the Corporation or other relevant changed in the capital of the Corporation.

#### **10. Regulatory Authorities Approval**

The Plan shall be subject to the approval, if required, of any stock exchange on which the Corporation's common shares are listed for trading. Any options granted prior to such approval shall be conditional upon such approval being given and upon such options may be exercised unless such approval, if required, is given.

#### **11. Reduction of Option Price**

Any reduction in the exercise price of an option, if the option is an insider of the issuer, shall be subject to shareholder approval.

**12. Amendment or discontinuance of the Plan**

The Committee may, subject to the prior approval of the Board of Directors of the Corporation and any stock exchange or other regulatory body having jurisdiction, amend or discontinue the Plan at any time, provided that no such amendment may increase the maximum number of shares that may be options under the Plan, change the manner of determining the minimum option price, extend the period during which options may be granted or, without the consent of the optionee, alter or impair any option previously granted to an optionee under the Plan.

**13. Prior Plans**

The Plan shall entirely replace and supersede prior option plans, if any, enacted by the Board of Directors of the Corporation or its predecessor corporations.

## **Appointment of Auditor**

Unless otherwise directed, it is management's intention to vote proxies in favor of an ordinary resolution to appoint Tenny Lo, Chartered Accountant, Calgary, Alberta, to serve as the auditors of the Corporation until the next Annual General Meeting and to authorize the directors to fix their remuneration.

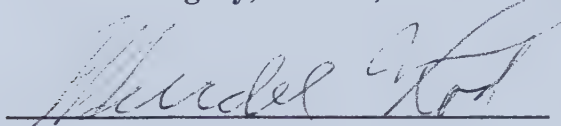
## **Other Matters**

Management knows of no amendment, variation or other matter to come before the meeting other than the matters referred to in the Notice of Annual General Meeting. However, if any other matter properly comes before the Meeting, the accompanying proxy will be voted on such matter in accordance with the best judgement of the person or persons voting the proxy.

## **Certificate**

The foregoing contains no untrue statement of a material fact and does not omit to state a material fact that is required to be stated or that is necessary to make a statement not misleading in the light of the circumstances in which it was made. The contents and sending of this Information circular have been approved by the directors of the Company.

**Dated at Calgary, Alberta, Canada on June 4<sup>th</sup>, 2004**

A handwritten signature in dark ink, appearing to read 'Murdo C. McLeod', is written over a horizontal line.

**Murdo C. McLeod, Chief Executive Officer  
Flag Resources (1985) Limited**



**FLAG RESOURCES (1985) LIMITED**

**FINANCIAL STATEMENTS**

***December 31, 2003***



**Partners**

Tenny S. Lo, MA, FCGA, CA, CFP\*

Elizabeth A. Thompson, FCGA\*

Richard J. Black, CGA\*

\*Professional Corporation

**AUDITORS' REPORT**

To the shareholders of  
**FLAG RESOURCES (1985) LIMITED**

We have audited the balance sheets of Flag Resources (1985) Limited as at December 31, 2003 and 2002 and the statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards required that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respect, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



**Lo Porter Hetu**  
Certified General Accountants

Calgary, Alberta, Canada  
May 13, 2004.

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223 - 14 Street N.W.

Calgary, Alberta

Canada

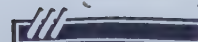
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# FLAG RESOURCES (1985) LIMITED

## STATEMENT OF OPERATIONS AND DEFICIT

For the years ended December 31

	2003	2002
<b>REVENUE</b>	<b>\$ -</b>	<b>\$ -</b>
<b>EXPENSES</b>		
Interest on long term debt	204,328	750,344
General and administration	63,603	50,816
Professional fees	46,950	38,684
Salaries and wages	27,926	27,120
Transfer agent fees	18,335	26,105
Amortization	1,648	1,183
	<b>362,790</b>	<b>894,252</b>
<b>LOSS BEFORE INCOME TAXES</b>	<b>(362,790)</b>	<b>(894,252)</b>
Recovery of future income taxes	-	73,813
<b>NET LOSS FOR THE YEAR</b>	<b>(362,790)</b>	<b>(820,439)</b>
<b>DEFICIT, Beginning of year</b>	<b>(14,594,135)</b>	<b>(13,773,696)</b>
<b>Deficit, end of year</b>	<b>\$ (14,956,925)</b>	<b>\$ (14,594,135)</b>
<b>LOSS PER SHARE (note 8)</b>		
Basic	<b>\$ (0.015)</b>	<b>\$ (0.041)</b>
Diluted	<b>\$ (0.015)</b>	<b>\$ (0.041)</b>



# FLAG RESOURCES (1985) LIMITED

## BALANCE SHEET

As at December 31

	2003	2002
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	\$ -	\$ -
Accounts receivable	1,216	1,858
Goods and services tax recoverable	25,572	6,208
Prepaid expenses	-	558
Due from director	215,898	150,000
	<u>242,686</u>	<u>158,624</u>
EQUIPMENT - (net of accumulated amortization)	7,758	4,733
INVESTMENTS (note 3)	61	61
DUE FROM RELATED PARTY (note 4)	1,119,575	891,331
MINERAL INTEREST (note 5)	983,284	770,926
	<u>\$ 2,353,364</u>	<u>\$ 1,825,675</u>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Bank indebtedness	\$ 293	\$ 33
Accounts payable and accrued liabilities	495,418	420,390
	<u>495,711</u>	<u>420,423</u>
LONG TERM DEBT (note 6)	7,480,234	7,184,405
	<u>7,975,945</u>	<u>7,604,828</u>
GOING CONCERN (note 1)		
<b>SHAREHOLDERS' DEFICIENCY</b>		
SHARE CAPITAL (note 7)	9,334,344	8,814,982
DEFICIT	(14,956,925)	(14,594,135)
	<u>(5,622,581)</u>	<u>(5,779,153)</u>
	<u>\$ 2,353,364</u>	<u>\$ 1,825,675</u>

Approved by the Board:

Murdo McLeod *Signed*

Sid Miszczuk *Signed*



# FLAG RESOURCES (1985) LIMITED

## STATEMENT OF CASH FLOWS

For the years ended December 31

	2003	2002
<b>CASH WAS PROVIDED BY (USED IN):</b>		
<b>OPERATION ACTIVITIES</b>		
Loss for the year	\$ (362,790)	\$ (820,439)
Items not affecting cash		
Future income taxes	-	(73,813)
Amortization of tangible assets	1,648	1,183
Funds used in operations	(361,142)	(893,069)
Net change in non-cash working capital	56,864	(39,521)
<b>Cash used in operating activities</b>	<b>(304,278)</b>	<b>(932,590)</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of equipment	(4,673)	-
Increase in exploration and development costs	(212,358)	(205,380)
<b>Cash used in investing activities</b>	<b>(217,031)</b>	<b>(205,380)</b>
<b>FINANCING ACTIVITIES</b>		
Issue of common shares, net of issuance costs	519,362	321,307
Increase in long term debt	295,829	881,343
Advances to related parties	(228,244)	(64,738)
Increase in due from director	(65,898)	-
<b>Cash provided by financing activities</b>	<b>521,049</b>	<b>1,137,912</b>
<b>INCREASE (DECREASE) IN CASH FLOW</b>	<b>(260)</b>	<b>(58)</b>
<b>CASH (DEFICIENCY) - Beginning of year</b>	<b>(33)</b>	<b>25</b>
<b>CASH (DEFICIENCY) - End of year</b>	<b>\$ (293)</b>	<b>\$ (33)</b>

There is no interest and taxes paid in cash in the current fiscal year.

# FLAG RESOURCES (1985) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

*December 31, 2003 and 2002*

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### 1. GOING CONCERN

These financial statements have been prepared on the basis that the Company is a going concern and accordingly reflect no adjustments relating to the recoverability and reclassification of assets or the amounts and classification of liabilities that might be necessary should the Company be unable to continue in business.

As at December 31, 2003, the Company had a substantial deficit and working capital deficiency. Its ability to continue as a going concern is dependent upon its ability to generate sufficient funds through future operations or to make other financing arrangements to meet its obligations.

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### 2. SIGNIFICANT ACCOUNTING POLICIES

#### Investment

Long term investments in related companies are carried at cost. Investment will be written down when, in management's opinion, there is a permanent impairment in its carrying value.

#### Equipment

Equipment is stated at cost less accumulated amortization. Amortization is provided at rates designed to amortize the assets over their estimated useful lives less salvage value. The amortization rate is as follows:

Office equipment

20% using declining balance method

#### Flow-through Shares

The resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow through share arrangements are renounced to investors in accordance with the income tax legislation. Capital stock is reduced and future income tax liability increased by the estimated tax cost of these renounced expenditures.

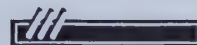
#### Mineral Interests

The Company is in the exploratory stage of developing mineral and resource interests. All acquisition, exploration and development costs have been capitalized. The costs of mineral interests are written off when the properties are no longer being developed.

#### Income Taxes

The Company follows the liability method of accounting for income taxes. Under the liability method, the Company records future income taxes for the effect of any differences between the accounting and income tax basis of an asset or liability. Future income tax assets and liabilities are measured using income tax rates expected to apply in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in net income in the period in which the change is substantially enacted.

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# FLAG RESOURCES (1985) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2003 and 2002

(note 2) continues...

### Stock Options

The Company adopted the recommendations of the CICA Handbook Section 3870, Stock-Based Compensation and Other Stock Based Payments using the fair value method on a prospective basis. Under the fair value method, fair value of the stock options is estimated at the grant date and the total fair value of the options is amortized over the vesting periods as compensation expense with an offset to share capital. For options that are forfeited before vesting, the compensation expense that has previously been recognized in operating expenses and share capital is reversed. When options are exercised, the proceeds received by the Company are credited to share capital in the financial statements.

### Earnings Per Share

The Company adopts the treasury stock method of computation, presentation and disclosure of fully diluted earnings per share. Under the treasury stock method, only "in money" dilutive stock options and other instruments impact the diluted calculations.

### Measurement Uncertainty

The deferral of exploration and development costs and the determination of the impairment are part of the normal process of making accounting estimates and judgment decisions, all or part of which may be proved by subsequent events to require change. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements of future periods may be material.

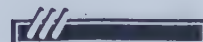
### 3. LONG TERM INVESTMENTS

	2003	2002
Golden Briar Mines Limited, 634 shares, at cost	\$ 60	\$ 60
Dubisson Explorations Limited, 229,575 shares, written down to nominal value	1	1
	\$ 61	\$ 61

The market value of the Golden Briar Mines Limited shares was \$32 at May 13, 2004.

### 4. DUE FROM RELATED PARTY

The advances to Golden Briar Mines Limited are non-interest bearing and unsecured. The ultimate recoverability of these advances is dependent on Golden Briar's ability to generate sufficient funds through future operations or make alternative financing arrangements. Management does not feel that there has been a permanent impairment in the value of these advances.



# FLAG RESOURCES (1985) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

*December 31, 2003 and 2002*

### 5. MINERAL INTERESTS

The Company has interests in mineral properties which it is in the process of exploring and determining whether they contain reserves that are economically recoverable. The recoverability of expenditures on mining interests is dependent upon the existence of economically recoverable ore, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain necessary financing to complete the development and future profitable production.

Since the Company is writing off the costs of exploration in properties which is no longer being developed, the book value of the assets approximates fair value. Although there is no reasonable basis to determine if revenue will be sufficient to recover the capitalized costs, there is no other conditions that exist at this time that would indicate the need to record further impairment of these assets. Since 1994, a total of \$5,498,135 of capitalized acquisitions, exploration and development costs have been written down.

### 6. LONG TERM DEBT

	2003	2002
Convertible debenture held by Cooksville Steel Limited bearing interest at 14% with up to \$715,000 convertible at \$0.40 per share secured by way of a first floating charge on all assets.	\$ 815,000	\$ 815,000
Convertible debenture bearing interest at 15%, convertible to common shares at \$1.00 per share.	25,000	25,000
Note payable bearing interest at 15%.	42,699	42,699
Note payable bearing interest at 10%.	105,000	87,000
Accrued interest on debentures and interest bearing notes payable	5,223,309	5,018,980
Advances from Cooksville Steel Limited, non-interest bearing	1,247,803	1,174,303
Other advances, non-interest bearing.	21,423	21,423
	<u>\$ 7,480,234</u>	<u>\$ 7,184,405</u>

These amounts, except as noted above, are unsecured and payable on demand. However, the creditors have indicated that it will not demand payment in 2004. Therefore, they are classified as non-current.

Principal payment required for the next two fiscal years are as follow:

2004	-
2005	7,480,234



# FLAG RESOURCES (1985) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2003 and 2002

### 7. SHARE CAPITAL

#### Authorized

Unlimited number of Class "A" Common Shares

2,000,000 first preference shares with a stated value of \$10 per share.

Issued	2003		2002	
	Number of Shares	Amount	Number of Shares	Amount
<b>Common Shares</b>				
Balance, beginning	20,894,171	\$ 8,814,982	18,524,171	\$ 8,564,970
Issuance on debt settlement	2,080,284	249,634	630,000	89,258
Issuance of flow-through shares	-	-	1,240,000	85,754
Exercise of purchase warrants and options	2,502,000	269,728	500,000	75,000
<b>Balance, ending</b>	<b>25,476,455</b>	<b>9,334,344</b>	<b>20,894,171</b>	<b>8,814,982</b>
Weighted average number of shares outstanding	23,985,319		19,916,373	

#### Escrow Shares

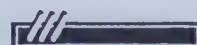
As at December 31, 2003, there is no shares held in escrow.

#### Stock Options

The Company has established a stock option plan whereby the Company may grant options to purchase common shares to its directors, officers, employees and consultants. Options are granted at the closing market price of the common shares on the date immediately preceding the date of grant, can vest immediately and expire no later than five years from the date of grant. The following is a schedule of stock options outstanding as at December 31, 2003.

	2003		2002	
	Options for Common Shares	Wt. Average Exercise Price	Options for Common Shares	Wt. Average Exercise Price
Outstanding, beginning of year	750,000	\$ 0.52	1,045,000	\$ 0.62
Expired	(25,000)	-	(295,000)	0.88
Granted	1,495,000	0.10	-	-
Exercised	(1,700,000)	0.10	-	-
Outstanding, end of year	520,000	\$ 0.10	750,000	\$ 0.52

All outstanding options have been vested. No compensation expense is recognized after a fair value option price model is applied.



# FLAG RESOURCES (1985) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

*December 31, 2003 and 2002*

*(note 7) continues...*

### Warrants

As at December 31, 2003, there were 40,000 (2002 - 1,635,000) warrants outstanding to third parties. Each warrant entitles the holder to acquire a common share of the Company at prices ranging from \$0.15 to \$0.225 per share. As of the report date, all outstanding warrants had expired.

### 8. EARNINGS PER SHARE

	2003	2002
<b>Basic loss per share</b>		
Net loss	\$ (362,790)	\$ (820,439)
Weighted average number of shares outstanding	23,985,319	19,916,373
Basic loss per share	\$ (0.015)	\$ (0.041)
<b>Diluted loss per share</b>		
Net loss	\$ (362,790)	\$ (820,439)
Less effect of stock options and warrants	-	-
Net loss on a diluted basis	(362,790)	(820,439)
Weighted average number of shares outstanding	23,985,319	19,916,373
Diluted loss per share	\$ (0.015)	\$ (0.041)

The effect of stock options is calculated based on the treasury stock method requirements which assume that any proceeds from the exercise of the options would be used to purchase common shares at the average market prices during the period. The current outstanding stock options and warrants have no dilutive effect on earnings per share.

### 9. RELATED PARTY TRANSACTIONS

The Company and Golden Briar Mines Limited (Golden Briar) are related through interlocking directorships and cross shareholdings. The Company and Golden Briar share all operating expenses including office lease. The Company has billed Golden Briar for its share of the operating expenses which are at fair market value.

The Company and Golden Briar have entered into an option agreement, whereby Golden Briar was required to incur \$400,000 of exploration expenditures on certain properties in return for a 50% interest of the said properties.



# FLAG RESOURCES (1985) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

*December 31, 2003 and 2002*

### 10. FUTURE INCOME TAXES

The components of the Company's future income tax assets and liabilities are as follows:

	2003	2002
Statutory tax rate	36.74%	38.62%
Income tax cost base exceeding net book value	\$ 3,342,335	\$ 3,685,049
Flow-through shares renouncement	(130,805)	(137,499)
Share issue costs	30,060	36,704
Non-capital loss carry forward	133,942	132,285
Net future income tax assets	\$ 3,375,532	\$ 3,716,539
Future income tax assets recognized	\$ -	\$ -

Non-capital losses carried forward for income tax purposes amount to \$364,567 and expire in various years to 2010. \$34,094 of non-capital losses has expired in the current year. Net capital losses carried forward for income tax purposes amount to approximately \$1,286,000, which may be carried forward indefinitely but may only be applied against taxable capital gains realized in future years.

### 11. COMMITMENTS

Pursuant to the Mining Act Regulations of the Ministry of Northern Development and Mines of Ontario, the Company is required to expend certain amount per year on each mining claim. The required expenditure for each of the years to 2005 is as follow:

2004	\$ 55,200
2005	11,600

### 12. REMUNERATION OF OFFICERS

The aggregate remuneration paid or payable in the year to directors and senior officers, as defined in the Alberta Business Corporations Act amounted to \$19,804 (2002 - \$55,320), of which \$Nil was capitalized to exploration and development (2002 - \$28,200).

### 13. ECONOMIC DEPENDENCE

The Company is economically dependent on Cooksville Steel Limited. Cooksville's financial support to the Company has allowed Cooksville to exercise significant influence over the operations of the Company and as such, it is considered to be a related party. Details of the transactions between the Company and Cooksville are more fully disclosed in note 6 to these financial statements.



# FLAG RESOURCES (1985) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

*December 31, 2003 and 2002*

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### 14. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and bank indebtedness, accounts receivable, goods and services tax recoverable, due from director, long term investments, due from related parties, accounts payable and accrued liabilities, and long term debt. The fair value of these financial instruments, except due from related parties and long term debt, approximate their carrying value.

#### Fair value

The Company's major creditor, Cooksville Steel Limited has waived interest charges on indebtedness of \$7,307,000, owed by the Company from January 1, 2004 to March 31, 2005. As a result, the fair value of the long term debt obligation is approximately \$7,094,000 as of the year end date.

Advance to related company of \$1,119,575 is non-interest bearing. Using the average risk-free rate of return as the discount rate, the fair value of this financial instrument is approximately \$548,600.

#### Risk management

The Company has no significant accounts receivable nor current debt that are subject to interest rate fluctuation. Therefore, there is no credit risk nor interest rate risk as of the year end date.

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### 15. CONTINGENCY

The Company is subject to extensive environmental laws and regulations. These laws, which are constantly changing, include regulations covering the discharge of materials into the environment. Management of the Company believes that it is in compliance with the existing laws and regulations. Since the Company is engaging all experienced and reputable advisors and contractors in its exploratory activities, the Company's risk of non-compliance is low.

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### 16. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.

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### 17. SUBSEQUENT EVENTS

The Board of Directors has accepted a proposal to retire total debt, in the amount of \$1,157,142, owed by Golden Briar Mines Limited as at March 13, 2003, in exchange for 10,000,000 (ten million) common shares of Golden Briar subject to the approval of the shareholders of Golden Briar Mines Limited at the Annual General Meeting scheduled for June 30, 2004, and the TSX Venture Exchange. As of the report date, approval from the Exchange has not been granted.

In January 2004, the Company closed a private placement with an institutional investor and issued 700,000 common shares at \$0.13 per share, along with warrants to purchase an additional 700,000 common shares at \$0.15, exercisable for a period of two years.



# **Flag Resources (1985) Limited/ Les Ressources Flag (1985) Ltee**

## **Balance sheet**

(unaudited)

	<b>March 31 <u>2004</u></b>	<b>December 31 <u>2003</u></b>
<b>Assets</b>		
Current assets:		
Cash	\$ 124	\$ -
Accounts receivable	1,216	1,216
Goods and services tax recoverable	29,798	25,572
Due from director	<u>192,873</u>	<u>215,898</u>
	224,011	242,686
Investment in related companies	61	61
Due from related party	1,116,871	1,119,575
Equipment, net of accumulated amortization	7,271	7,759
Mineral interests:		
Acquisition costs	1	1
Exploration and development	<u>1,029,876</u>	<u>983,282</u>
	<u>1,029,877</u>	<u>983,283</u>
	<u><u>\$ 2,378,091</u></u>	<u><u>\$ 2,353,364</u></u>
<b>Liabilities and Capital Deficiency</b>		
Current liabilities:		
Bank indebtedness	\$ -	\$ 293
Accounts payable and accrued liabilities	<u>459,682</u>	<u>495,418</u>
	459,682	495,711
Long term debt:		
Due to Cooksville Steel Limited	7,328,810	7,328,810
Loans payable	<u>136,423</u>	<u>151,423</u>
	7,465,233	7,480,233
Capital deficiency:		
Share capital	9,440,344	9,334,344
Deficit	<u>(14,987,168)</u>	<u>(14,956,924)</u>
	<u>(5,546,824)</u>	<u>(5,622,580)</u>
	<u><u>\$ 2,378,091</u></u>	<u><u>\$ 2,353,364</u></u>

# **Flag Resources (1985) Limited/ Les Ressources Flag (1985) Ltee**

## **Statement of Operations and Deficit**

(unaudited)

	<b>Three Months Ended March 31</b>	
	<u><b>2004</b></u>	<u><b>2003</b></u>
Revenue	\$ -	\$ -
Expenses:		
Amortization	487	412
Consulting fees	-	13,050
General and administration	2,463	4,857
Interest on long term debt	-	204,328
Listing and related fees	4,570	8,595
Professional fees	4,636	1,654
Rent	4,387	4,387
Salaries and wages	8,902	7,595
Shareholder relations	4,799	1,820
Net loss for the period	(30,244)	(246,698)
Deficit, beginning of period	(14,956,924)	(14,594,135)
Deficit, end of period	\$ <u>(14,987,168)</u>	\$ <u>(14,840,833)</u>
Loss per share	\$ <u>(0.001)</u>	\$ <u>(0.012)</u>

# **Flag Resources (1985) Limited/ Les Ressources Flag (1985) Ltee**

## **Statement of Cash Flow**

(unaudited)

**Three Months Ended March 31**

	<u><b>2004</b></u>	<u><b>2003</b></u>
Cash was provided by (used in):		
Operating activities		
Loss for the period	\$ (30,244)	\$ (246,698)
Add: items not affecting cash:		
Amortization	487	412
Interest on long-term debt	-	204,328
	<u>(29,757)</u>	<u>(41,958)</u>
Decrease in non-cash working capital	<u>(16,937)</u>	<u>(26,310)</u>
Cash used in operating activities	<u>(46,694)</u>	<u>(68,268)</u>
Financing activities		
Issue of common shares, net of issuance costs	106,000	161,228
Decrease (increase) in advances to related company	2,704	(50,343)
Increase in due to Cooksville Steel Limited	-	12,500
Increase (decrease) in loans payable	<u>(15,000)</u>	<u>3,000</u>
Cash provided by financing activities	93,704	126,385
Investing activities		
Exploration and development expenditures	(46,593)	(52,789)
Purchase of equipment	-	(4,673)
Cash used in investing activities	<u>(46,593)</u>	<u>(57,462)</u>
Increase (decrease) in cash for the period	417	655
Cash (deficiency), beginning of period	<u>(293)</u>	<u>(33)</u>
Cash (deficiency), end of period	\$ <u>124</u>	\$ <u>622</u>

*Cash interest paid in the period amounted to \$nil (2003 - \$nil)*

# Flag Resources (1985) Limited/ Les Ressources Flag (1985) Ltee

## Note to the Financial Statement (unaudited)

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### 1 Basis of presentation

The interim financial statements have been prepared following the same accounting policies and methods of computation as the financial statements for the year ended December 31, 2003. The interim financial statements should be read in conjunction with the financial statements and the notes thereto in the Company's annual report for the year ended December 31, 2003.



